

Message Text

SECRET

PAGE 01 TAIPEI 07251 111024Z

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ACTION PM-04

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S E C R E T TAIPEI 7251

E.O. 11652: GDS

TAGS: MASS, TW

SUBJECT: FY 1976 AND 1977 MILITARY SECURITY ASSISTANCE

REFERENCE: STATE 258224 (DTG 310125Z OCT 75)

1. WE HAVE INFORMED THE GROC OF THE AMOUNTS OF MILITARY SECURITY ASSISTANCE BEING REQUESTED FOR FY 1976.

2. FOLLOWING ARE THE ANSWERS PREPARED BY THE COUNTRY TEAM FOR REPLY TO THE QUESTIONS ASKED IN PARAGRAPH 5 OF REFTEL. ANSWERS ARE KEYED TO QUESTIONS.

A. YES, THE GROC WILL ACCEPT AND CONSUMMATE CREDIT AGREEMENT AT LEVELS INDICATED IF CONGRESS APPROVES THE EXECUTIVE BRANCH REQUEST.

B. THE FOLLOWING IS THE GROC'S LIST OF MAJOR ITEMS TO BE PROCURED IN PRIORITY ORDER:

SECRET

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PAGE 02 TAIPEI 07251 111024Z

| PRIORITY | ITEM | AMOUNT |
|----------|------|--------|
|----------|------|--------|

(US \$ MILLIONS)

| | | |
|---|---|------|
| 1 | F-5E (IN CO-PRODUCTION PROGRAM) | 60.8 |
| 2 | SEMI-AUTO AIR DEF SYS | 12.0 |
| 3 | ANTI-AIRCRAFT GUN/MISSILES (FOR SHIPS) | 2.0 |
| 4 | IMPROVED HAWK CONVERSION | 5.2 |
| | TOTAL: | 80.0 |

C. YES, PROVISION OF CREDIT SUPPORTS A MILITARY REQUIREMENT DERIVED FROM A US-APPROVED FORCE GOAL.

D. THE ROC IS SHIFTING ITS MILITARY POSTURE TO EMPHASIZE AIR AND NAVAL DEFENSE WHICH IS IN CONCERT WITH U.S. INTERESTS IN THE AREA. FMS CREDITS ARE USED AS SEED MONEY TO STEER THE ROC TOWARD PROCUREMENT OF WEAPONS SYSTEMS WHICH RESPOND TO U.S. IDENTIFIED GOALS.

E. THE U.S. SECURITY ASSISTANCE PROGRAM TO THE ROC HAS BEEN GRADUALLY REDUCED AND THE GRANT MATERIAL PROGRAM HAS BEEN TERMINATED. THE GRANT TRAINING IN THE U.S. AT HIGHER MANAGEMENT LEVELS PROVIDES THE ANALYTICAL CAPABILITY TO PLAN AND PROGRAM THE ACQUISITION OF WEAPONS SYSTEMS NEEDED TO SUPPORT ROC DEFENSE POSTURE.

F. THE FMS CREDIT PROGRAM, WITH THE ADVICE AND MONITORING PROVIDED BY THE MAAG, HAS BEEN AN ESSENTIAL ELEMENT IN THE DEVELOPMENT OF THE ROC'S HIGH STATE OF MILITARY READINESS AND ITS PREDOMINANTLY DEFENSE-ORIENTED WEAPONS INVENTORY. UNDER PRESENT CONDITIONS, THE CONTINUATION OF FMS CREDIT FOR TAIWAN WILL PROMOTE U.S. INTERESTS AND OBJECTIVES. MAAG CAN AND DOES INFLUENCE ROC DEFENSE ACQUISITION THROUGH THE USE OF FMS CREDITS. USED AS SEED MONEY, FMS CREDIT ALLOCATIONS GIVE THE MISSION SOME LEVERAGE IN STEERING THE ROC TOWARD PROCUREMENT OF WEAPONS SYSTEMS WHICH RESPOND MOST DIRECTLY TO THE PRIMARY THREATS AGAINST TAIWAN. FMS CREDITS ADDITIONALLY ASSURE THAT THE ROC BUYS U.S. WEAPONS SYSTEMS, AN OBVIOUS ADVANTAGE TO US FROM A COMMERCIAL STANDPOINT, AND IN TERMS OF KEEPING ROC ARMAMENTS COMPATIBLE WITH THOSE OF THE U.S.

SECRET

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PAGE 03 TAIPEI 07251 111024Z

END CONFIDENTIAL.

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G. THE ONLY REGIONAL ARMS BALANCE RELEVANT TO TAIWAN IS THAT WHICH EXISTS BETWEEN ROC AND PRC ARMED FORCES. THE BASIC APPROACH OF THE SECURITY ASSISTANCE PROGRAM HAS BEEN TO DEVELOP A CREDIBLE DETERRENT TO A PRC ATTACK WITHOUT PROVIDING A COUNTER FOR EVERY PRC WEAPONS SYSTEM. IT IS

ALSO IMPORTANT IN TERMS OF US-PRC NORMALIZATION PROCESS THAT ROC MILITARY CAPABILITIES BE DEFENSIVE IN NATURE. WE DO NOT BELIEVE THAT PROJECTED LEVEL OF CREDITS WILL HAVE AN UNDESIRABLE IMPACT ON THE BALANCE BETWEEN ROC AND PRC ARMED FORCES, AND IT WILL BE IN KEEPING WITH OUR OVER-ALL SECURITY ASSISTANCE POLICY.
END SECRET.

BEGIN CONFIDENTIAL:

H. YES, THERE IS A DEMONSTRABLE NEED FOR MILITARY CREDIT ASSISTANCE. THE SYSTEMS REQUIRED BY THE ROC FOR A CREDIBLE AIR AND NAVAL DEFENSE CAN ONLY BE PROCURED ON A TIMELY BASIS WITH THE HELP OF FMS CREDITS. THE LONG-RANGE ECONOMIC OUTLOOK IS FAVORABLE AND DIMINISHING CREDIT REQUIREMENTS ARE PROJECTED FOR FUTURE YEARS.

I. BASIC FINANCIAL CONDITION OF ROC IS SOUND AND PROPOSED CREDIT WILL NOT PLACE UNDUE BURDEN ON COUNTRY'S RESOURCES. BY USUAL CRITERIA MEASURING A COUNTRY'S SOLVENCY VIS-A-VIS REST OF WORLD, ROC IS IN GOOD SHAPE. DEBT SERVICE RATIO HAS BEEN RUNNING ABOUT 5 PERCENT, THAT IS, ROC HAS BEEN EARNING ENOUGH FROM EXPORTS TO MAKE ITS ANNUAL PAYMENTS ON FOREIGN DEBT, BOTH PRINCIPAL AND INTEREST, 20 TIMES OVER. THIS YEAR'S FIGURE IS A LITTLE HIGHER, ABOUT 7 PERCENT, BUT STILL AT AN UNUSUALLY LOW LEVEL FOR A DEVELOPING COUNTRY. FOREIGN EXCHANGE RESERVES STAND AT US \$2 BILLION, OR THE EQUIVALENT OF ABOUT 4 MONTHS OF IMPORTS, AND TOTAL EXTERNAL DEBT IS ONLY SLIGHTLY HIGHER, AT ABOUT \$ 2.5 BILLION. THIS SOLID FINANCIAL CONDITION IS NOT UNUSUAL BUT HAS BEEN THE PATTERN FOR THIS COUNTRY AND INDICATES VERY ABLE FINANCIAL MANAGEMENT. THUS THERE IS NO REASON TO DOUBT ROC'S CONTINUED ABILITY TO ABSORB ADDITIONAL FOREIGN DEBT, BOTH FOR MILITARY AND DEVELOPMENT PURPOSES.

SECRET

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PAGE 04 TAIPEI 07251 111024Z

J. THERE ARE NO OTHER ARMS PURCHASES THE GROC IS MAKING FOR CASH OR CREDIT FROM U.S. OR THIRD COUNTRIES WHICH ARE RELEVANT TO EXTENSION OF PROPOSED FY 1976 CREDIT. WITH TWO MAJOR EXCEPTIONS ALL MAJOR WEAPONS SYSTEMS ACQUISITIONS HAVE BEEN FROM THE U.S. THROUGH USG PROCUREMENT CHANNELS. THE ROC PREFERS TO PURCHASE ALL OF ITS WEAPONS SYSTEMS FROM THE U.S. THROUGH USG CHANNELS BECAUSE OF ITS TRADITIONAL MILITARY TIES TO THE U.S. AND ITS DESIRE TO STRENGTHEN POLITICAL TIES. THE SYSTEMS SUPPORT AGREEMENTS WITH THE U.S. ARE MORE ADVANTAGEOUS IN COST AND EFFECTIVENESS.

THE ONE MAJOR COMMERCAIL PURCHASE FROM THE U.S. IS A MULTI-YEAR APPROXIMATELY US \$35 MILLION CONTRACT TO PURCHASE PSMM'S FROM THE TACOMA BOAT COMPANY. THIS CONTRACT IS IN

LINE WITH US-SUPPORTED GROC DEFENSE PRIORITIES.

THE ONE MAJOR THIRD COUNTRY ACQUISITION IS A LIMITED NUMBER
OF GABRIEL MISSILES WHICH WERE PURCHASED AGAINST AN URGENT
DEFENSE REQUIREMENT BECAUSE THE ROC HAS NOT BEEN CLEARED TO
BUY U.S. SURFACE-TO-SURFACE MISSILES IN RESPONSE TO THE
GROWING PRC STYX MISSILE BOAT THREAT.

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